



Police and Fire Pension Plan Sales Tax Proposal - Nov. 3, 2009

Pension Background

In 1946, voters first approved a self-funded pension plan for public-safety employees. Police officers and firefighters receive this pension and disability benefit instead of Social Security. The City Charter guarantees that earned benefits cannot be reduced; promised benefits can only be reduced through a public vote.

The Police and Fire Departments are considered “core services” of city government paid for by the General Fund. The General Fund is about \$70 million of the City’s annual operating budget; most of its revenue comes from a 1-cent general sales tax paid by residents and visitors. Police and Fire services comprise about 56 percent of the General Fund.

Over the years, many factors contributed to the pension fund’s current situation. Annual meet-and-confer sessions between the City and the employee labor associations produced changes in benefit provisions. Actuarial assumptions were adjusted every five years. The investment returns fluctuated based on investment strategy and market performance.



Mayor Jim O’Neal states: “The bottom line is, if we had not had ownership of the fund, we wouldn’t have had the opportunity or the temptation to tinker with it. The pension fund issues are 60 years in the making. It is neither a small problem nor a small solution.”



“The Task Force never lost sight of the fact that we are representing the citizens of Springfield and are responsible for performing in-depth research and asking the tough questions on their behalf. We believe we accomplished this.”

-- Chairman Jerry Fenstermaker,
Task Force Final Report executive summary

Proposed Pension Changes

On Nov. 3, 2009, Springfield voters will be asked to consider a ¾-cent sales-tax increase for the underfunded pension system for police officers and firefighters.

A 16-member Police-Fire Pension Fund Citizens’ Task Force researched the pension fund issues from April to August 2009. Members devoted about 2,000 hours over nearly 20 meetings to this issue. The Task Force’s final recommendations included the sales-tax referendum. The City Council approved that step and other actions to meet the obligation to our public-safety employees and maintain local control over our municipal finances.



Beginning April 27, the Task Force conducted 20 committee and two Town Hall meetings

1. Close the plan

New Police and Fire employees would be enrolled in the statewide LAGERS system for public employees. Current employees in the Tier II pension plan could voluntarily move to LAGERS. A Task Force subcommittee continues to study whether employees in the original Tier I plan (hired before July 1, 2006) also could move to LAGERS. Benefits earned under the current plan, however, will continue to be paid from the existing fund for 60 to 70 years.

2. Set a sustainable City Contribution Rate

The City would contribute 35 percent of payroll for Tier I police-fire

employees to the pension fund. That's higher than any previous rate except the last two years when the City has contributed 50 to 52 percent. Before fiscal year 2009, the fund's actuary had set the City's contribution rate at 28.88 percent.

3. Increase the Employee Contribution Rate

Police and Fire Tier I employees would pay at least an additional 2 percent of their pay into the plan over the current 11.35 percent contribution. New actuarial information sets Tier I employee contribution rate at 16.02 percent, a 4.67 percent increase. (New employees and most Tier II employees would move to the statewide LAGERS plan.)

4. Restructure Pension Board

A City Council committee is reviewing the Task Force's ideas for restructuring the pension board to eliminate potential conflicts of interest and to authorize the board to consider hiring a professional manager.

5. Additional Funding Commitments

The City Council pledged to put net proceeds from telecommunications settlements and, when legally possible, from the sale of city properties into the pension fund.

6. No New City Taxes

The City Council pledged not to initiate any new citywide sales taxes for at least five years.

Current Status (*updated Oct. 9, 2009)

- **Pension Fund assets*** \$112.37 million (as of June 30, 2009)
- **Total fund obligation*** \$316.7 million
- **Unfunded liability*** \$204.3 million
- **FY9 annual budget** \$12.5 million City contribution (50 % of police-fire payroll)
- **FY10 annual budget** \$13.1 million City contribution (52 % of police-fire payroll)
- **Total General Fund** \$70 million (approx.)
- **Telecommunications settlements** Nearly \$17 million from three settlements since 2007

In order to make this higher level of contribution, the City has cut \$12.7 million from the General Fund budget over two fiscal years. As of September 2009, budget reductions have led to a General Fund hiring freeze, including 31 police officer and 18 firefighter positions. The positions are frozen for two reasons: the budget shortfall and the effort to minimize the number of new employees going into the underfunded pension system.

According to new actuarial information, the City's recommended contribution rate could increase to 63 percent, or \$15 million in FY11. That would require additional General Fund budget cuts and a continuation of the hiring freeze. The impact of the hiring freeze for Police has been a reduced number of patrol officers and a corresponding increase in response time, particularly on non-emergency calls. The Fire Department has had to close one or two stations on certain days since April 2009, which has nearly doubled response time on calls within districts when stations are closed.

Nov. 3, 2009 Ballot Language

Question 1

"Shall the City of Springfield impose a sales tax at a rate of three-quarter of one percent (3/4-cent) solely for the purpose of providing revenues for the Springfield Police Officers' and Firefighters' Pension System, with said tax to sunset upon the Pension System fund reaching a fully-funded (100%) status as determined by an independent actuarial study conducted for the Pension System Board of Trustees?"

(The state of Missouri restricts such ballot measures to a five-year timeframe, at which point voters would have the option to repeal or continue it. The tax *cannot* continue for another five years without going back to voters. In the unlikely event the Pension Fund reaches 100% funding within five years, the tax would sunset early.)

For More Information

On the Web: the City of Springfield has three areas of its Web site with related information:

- springfieldmo.gov/elections
- springfieldmo.gov/pensiontaskforce (information from the Citizens' Task Force meetings)
- springfieldmo.gov/pensionboard (information from the Police Officers & Firefighters Retirement System Board of Trustees)

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